CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 23, 1998

H.R. 1872
Communications Satellite Competition and Privatization Act of 1998

As ordered reported by the House Committee on Commerce on March 25, 1998

SUMMARY

H.R. 1872 would amend existing law regarding the federal regulation of international satellite communications systems and their relationship to the U.S. market. Two treaty-based entities–the International Telecommunications Satellite Organization (INTELSAT) and the International Mobil Satellite Organization (Inmarsat)–currently provide most satellite-based communications services worldwide. A private company, COMSAT, serves as the U.S. signatory to both organizations and, under current law, has the exclusive right to market their services. This bill would allow customers to purchase services directly from INTELSAT and Inmarsat and to renegotiate contracts with COMSAT under certain terms and conditions. If the privatization of INTELSAT and Inmarsat occurs in a manner inconsistent with the criteria and deadlines in the bill, the Federal Communication Commission (FCC) would be required to limit the types of services and facilities that these entities can provide in the U.S. market. The bill also would modify COMSAT's rights and status as signatory, and would make the company subject to the FCC's regulatory fees. The FCC and the Department of Commerce (DOC) would have to issue various reports, findings, and determinations to implement these provisions, but the bill would eliminate certain administrative tasks after certain reforms take effect.

CBO estimates that implementing this bill would have no significant budgetary effects over the 1999-2003 period, but could result in lower costs to federal agencies for international telecommunications services in future years. The legislation would not affect direct spending or receipts; therefore, pay-as-you-go-procedures would not apply. H.R. 1872 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would impose no costs on state, local, or tribal governments. H.R. 1872 would impose new private-sector mandates as defined by UMRA. CBO estimates that the cost of those mandates would not exceed the statutory threshold established in UMRA ($100 million in one year, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

H.R. 1872 would affect discretionary spending on regulatory activities and purchases of international telecommunications services. CBO estimates that the administrative costs associated with implementing this bill would have no significant effect on net spending by the FCC and DOC. We estimate that the FCC would spend a few million dollars over the five-year period to prepare the determinations and reports required by the bill, assuming appropriation of the necessary amounts. Because the commission is authorized under current law to collect fees from the telecommunications industry sufficient to offset the cost of its regulatory and applications activities, CBO assumes that these additional costs would be offset by an increase in collections credited to annual appropriations for the FCC. Likewise, we assume that any reduction in spending resulting from the repeal of existing statutory tasks would be offset by a reduction in receipts. Hence, we estimate that the net effect of this additional workload on the FCC's discretionary spending would be negligible. In addition, we estimate that DOC would spend less than $100,000 in 1999 to prepare reports on access to markets in INTELSAT and Inmarsat-member nations.

The bill also would require COMSAT to pay regulatory fees. By itself, that requirement would not change the amount of receipts collected by the FCC because the agency's receipts are based on the amounts appropriated. However, having COMSAT pay regulatory fees would increase the number of companies liable for the fee, which would reduce the amount that must be paid by other companies. According to the FCC, COMSAT's payments would total about $650,000 per year.

H.R. 1872 could result in lower prices in the future for international telecommunications services purchased by the federal government, but CBO estimates that such savings are unlikely to be significant during the 1999-2003 period. According to COMSAT, the company's direct sales to the federal government totaled about $50 million in 1997, most of which involved sales to the Department of Defense and the Federal Aviation Administration. Provisions in this bill allowing agencies to purchase services directly from INTELSAT or Inmarsat after January 1, 2000, may result in savings relative to current law. Given the time that would be needed to resolve various technical and contractual issues related to direct access, CBO expects that such savings, if they occur, would not be significant during the next five years. Provisions allowing agencies to renegotiate existing contracts with COMSAT are unlikely to yield significant savings because most government contracts do not involve long-term volumetric commitments. The cost of services purchased from other providers, such as AT&T, MCI, and Sprint, could decline if those companies reduce their costs as a result of this legislation, but CBO cannot estimate the magnitude or timing of such savings.

CBO also expects that federal agencies would be unlikely to incur significant costs if the privatization of INTELSAT and Inmarsat were to trigger the restrictions in the bill on the types of services those entities can provide in the U.S. market. Finally, it is possible that enacting H.R. 1872 would result in litigation regarding the rights and status of COMSAT. CBO has no basis for predicting the likelihood or potential costs of such litigation.

PAY-AS-YOU-GO CONSIDERATIONS: None.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1872 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 1872 would impose new private-sector mandates, as defined by UMRA, on COMSAT (a private firm, created by federal statute) and on owners of earth stations who buy services from INTELSAT and Inmarsat. (An earth station consists of an antenna and associated electrical equipment that transmit and receive radio signals). CBO estimates that the direct costs of complying with private-sector mandates in the bill in each of the years 2000 through 2004 would be below the statutory threshold established in UMRA ($100 million in 1996, adjusted annually for inflation). In addition to the costs of mandates, the bill would affect the future business potential of COMSAT in a variety of other ways. Those effects depend on whether INTELSAT and Inmarsat meet the criteria for privatization included in the bill. CBO has not attempted to estimate the magnitude of those effects.

Mandates in the Bill

H.R. 1872 would impose three specific mandates on the private sector. The most costly is contained in section 642. That section would direct the FCC, beginning January 1, 2000, to require COMSAT to allow its customers to renegotiate their service contracts or terminate them without liability.

Estimating the Cost of Section 642

Section 642 would allow firms that have contracted with COMSAT for telecommunications services to take a "fresh look" at those contracts. COMSAT's status as the sole U.S. supplier of access to INTELSAT and Inmarsat services would be eliminated by section 641. Thus, the fresh look provision would allow COMSAT's current customers to take advantage of a new, more competitive market by negotiating more favorable terms with COMSAT or by terminating their contracts without liability if they can obtain better terms directly from INTELSAT and Inmarsat (or their successors) or from other satellite service providers. CBO estimates that the direct cost to COMSAT of the fresh look provision would be less than $100 million annually between 2000 through 2004 (the first five years that the mandate would be effective).

That estimate is based on information provided separately by COMSAT, its major customers, and the FCC. The estimated costs represent the difference between COMSAT's current expected net income from long-term contracts or tariff commitments, and its estimated net income after contracts have been renegotiated. CBO expects, consistent with assumptions made by COMSAT and its customers, that in general contracts would be renegotiated at lower prices rather than being entirely broken. Further, CBO assumes that the costs attributable to H.R. 1872 would be solely those related to long-term contracts that otherwise could not be renegotiated until they expire. After existing contracts expire any reduced revenues to COMSAT from negotiations for follow-on contracts would be attributable to new market conditions rather than the fresh look mandate in the bill.

Other Mandates

The other private-sector mandates pose minimal costs. If the privatization criteria for INTELSAT and Inmarsat are not met, section 601(b) (1) would direct the FCC to limit, deny, or revoke the license of any entity (primarily earth stations) to use a space segment owned, leased or operated by INTELSAT or Inmarsat to provide so-called noncore services. The bill defines such services, with respect to INTELSAT, as "services other than public-switched network voice telephone and occasional-use television" and, with respect to Inmarsat, as "services other than global maritime distress and safety services or other existing maritime or aeronautical services for which there are not alternative providers."

On the one hand, if INTELSAT and Inmarsat are privatized in a manner specified by the bill, no private-sector mandate would be created. On the other hand, if privatization does not occur, the FCC would have to take into account the prospect of harm to the buyers of satellite services before making its licensing decision. CBO assumes that, if competitive alternatives did not exist, the FCC would not deny earth stations access to INTELSAT or Inmarsat satellites. Either way, the cost of this provision would be negligible. The third mandate would be created by section 643(c), which would impose regulatory fees on COMSAT. Those fees are estimated to be about $650,000 annually.

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